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Recommendations of the Board of Auditors

UNOPS: Follow-up report on the implementation of the recommendations of the Board of Auditors for the biennium 2002-2003

Summary

The present report provides the further status of follow-up by UNOPS in response to the recommendations contained in the report of the Board of Auditors, 2002-2003 (A/59/5/Add.10), contained in document DP/2005/12, which was presented to the Executive Board at its first regular session in January 2005.

The Executive Board may wish to take note of the report.

Introduction

1. The present report is submitted pursuant to Executive Board decision 97/23 of 18 September 1997, in which the Executive Board requested the Executive Director of the United Nations Office for Project Services (UNOPS) to provide an updated overview of the implementation status as of mid-October 2005 of the recommendations of the Board of Auditors at its first regular session of the following year. Reports have subsequently been submitted on an annual basis.

2. The status of the implementation of recommendations of the Board of Auditors is contained in the annex to the present report.

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Annex
Recommendations under implementation

Paragraph 38

Recommendation of the Board of Auditors: UNOPS agreed with the reiterated recommendation that it exercise caution in its budgetary assumptions and delivery projections to ensure that realistic targets are established.

3. The budget policy proposed by UNOPS is contained in the draft financial rules and regulations currently being reviewed. The guidelines for the 2006-2007 biennium budget have been drafted and are under review by the Planning and Budget Advisory Committee (PBAC). Gross delivery under the project portfolio of services, income and expenditure forecasts are prepared regularly and are reviewed by the PBAC. The forecasts are shared periodically with the Executive Board at informal sessions.

Paragraph 42

Recommendation of the Board of Auditors: UNOPS agreed with the reiterated recommendation that it continue to review its medium-term strategy in a comprehensive manner – the review to include such elements as an analysis of the variables related to business from UNDP – with a view to aligning the project delivery approach. The Board further recommends that UNOPS fully explore all potential business acquisition possibilities and alternative sources of funding, given the changes in mandate that became effective in January 2004.

4. The Executive Board, in its decision 2005/36, took note of the UNOPS action plan for restoring long-term financial viability as a separate, self-financing entity. That decision noted the shift in UNOPS business towards post-conflict and natural disaster response, infrastructure and complex operations management services with capacity building support. The Board agreed that UNOPS should also offer other services, provided that UNOPS is able to recover its costs fully. The proposed cost-cutting measures were approved by the Executive Board. The Executive Director will establish a transition team to develop the corresponding implementation plan.

Paragraph 48

Recommendation of the Board of Auditors: UNOPS agreed with the reiterated recommendation that it (a) evaluate the basis and calculation of the cost of services with a view to ensuring that all costs are identified and recovered; (b) implement a system that addresses the shortcomings identified in the existing workload system; and (c) consider the feasibility of using a fixed minimum margin to permit better control of fluctuations in cost recovery rates while ensuring that UNOPS remains cost-effective.

5. A cost recovery policy has been formulated and reviewed by the Risk Management and Oversight Committee. The Executive Director has approved the policy, which will shortly be communicated to clients and to the Executive Board. The 2006-2007 biennium budget is being prepared on the basis of the cost recovery policy. All projects are now being reviewed with the objective of either (a) full cost recovery, or (b) divestment of projects not covering the cost of implementation.

Paragraph 52

Recommendation of the Board of Auditors: UNOPS agreed with the recommendation that it carefully consider the potential impact prior to any further reductions in the number of employees, as such reductions may not only impact its ability to meet project delivery needs, but may also result in a further loss of skills and resources which could negatively impact its ability to comply with finance and administration requirements.

6. Fully implemented. UNOPS continuously considers the impact that reductions and shifts in staffing numbers have on the conduct of its business.

Paragraph 58

Recommendation of the Board of Auditors: UNOPS agreed with the reiterated recommendation that it remain focused on preparing budgets and revisions thereto on a basis more in line with realistic project delivery.

7. All project budgets recorded in Atlas are reviewed on a quarterly basis and the necessary budget revisions are made.

Paragraph 63

Recommendation of the Board of Auditors: UNOPS agreed with the recommendation that it (a) monitor and track all the variables having an impact on the 'going concern' assumptions; and (b) agreed with the Executive Board on a time frame for rebuilding the operational reserve.

8. As of June 2005, monthly management reports of the enterprise-wide financial status are produced and reviewed by the Planning and Budget Advisory Committee. Necessary adjustments to the administrative expenditure are made as a consequence of this exercise.

Paragraph 70

Recommendation of the Board of Auditors: While the Board of Auditors recognizes the efforts made by UNOPS to review unliquidated obligations, it reiterates its recommendation that it conduct more regular reviews of all unliquidated obligations in a timely manner. Furthermore, UNOPS should enforce strict financial discipline with regard to project officers creating valid obligations.

9. Regular reviews of unliquidated obligations (ULOs) have been scheduled as follows:

1 July: List of prior year ULOs distributed to portfolio managers to review and confirm which should be cancelled.

1 October: All prior year ULOs cancelled. Portfolio managers receive list and must issue a current year purchase order if still valid.

31 December: List of ULOs that should be carried forward to following year distributed to portfolio managers to review. Hence at year-end no ULO is more than one year old.

Paragraph 76

Recommendation of the Board of Auditors: UNOPS agreed with the reiterated recommendation of the Board of Auditors that it (a) review, in conjunction with the administrations of the United Nations and other funds and programmes, review the funding mechanism and targets for end-of-service and post-retirement benefits

liabilities; and (b) expedite its consideration of funding the end-of-service liabilities, given its unique funding principles.

10. UNOPS has initiated a policy of recognizing its liability for post-retirement benefits on a systematic basis over the average service life of employees. In 2004 on this basis a provision of $2 million was recognised. The 2004 provision of $2 million will be increased to $4 million at 31/12/05. It should also be noted that under UNOPS Financial Regulation 8.3(iv), the UNOPS Operating Reserve (set by the Executive Board at 4% of combined delivery and administrative expenditure) covers "liabilities associated with UNOPS personnel contracts financed from the UNOPS Account" (i.e., end of service liabilities).

Paragraph 80

Recommendation of the Board of Auditors: UNOPS agreed with the recommendation that it (a) reconcile the payroll to the general ledger on a regular basis to ensure all payroll costs have been correctly allocated; (b) certify the reconciliations at an appropriate level of seniority as proof of review; and (c) make specific year-end and biennium-end closing arrangements to validate differences.

11. It was originally expected that UNDP, as the UNOPS payroll service provider, would undertake reconciliations from the payroll to the general ledger. However, since UNDP no longer provides this service, UNOPS now carries out payroll reconciliations (as of 1 October 2005).

Paragraph 89

Recommendation of the Board of Auditors: UNOPS agreed with the recommendation that it (a) update inventory records for all decentralized offices and reconcile all movements with the appropriate additions and disposals; (b) mark all UNOPS inventory items with a unique, identifiable inventory number or serial number; (c) conduct inventory counts at regular intervals; and (d) ensure that valid, accurate and complete opening balances are included in the Atlas system.

12. Atlas will be used to record and track administrative assets starting on 1 January 2006. Prior to that date, decentralized offices have maintained local spreadsheet asset registers validated by with annual asset counts and reporting to Head Office.

Paragraph 98

Recommendation of the Board of Auditors: UNOPS agreed with the recommendation that it take immediate action to:

(a) perform reconciliations for all imprest, inter-office voucher and inter-fund accounts;
(b) investigate and resolve all reconciling items;
(c) quantify the reconciling items and projections;
(d) process the resulting adjustments; and
(e) implement measures to prevent a recurrence of failures in controls, including the failure to adequately train staff.

13. For the year 2004, all reconciliations between Atlas accounts payable and imprest field cash books and bank statements have been completed and the resulting adjustments processed. The estimated completion time for the 2002-2003 reconciliations is October 2005.

14. As matter of prudence and good practice, a general ledger reserve of $2.68 million (2005 budget) and $0.7 million (2004 actual) has been set aside to cover any write-offs arising once balance sheet reconciliations have been completed for imprest accounts, accounts receivable, fixed assets and project overruns.

15. To avert a recurrence of the 2002-2003 biennium audit observation, the following measures have been taken:

(a) Imprest accounts staff received Atlas, imprest examination and imprest data-entry training in March 2005.
(b) Training materials for imprest field personnel have been created and are ready for use.
(c) A training plan was developed and rolled out to train field personnel.
(d) Imprest policies and enforcement rules have been published on the UNOPS intranet site.
(e) Control procedures are in place for review and approval of imprest activities that do not meet the guidelines.

Paragraph 103

Recommendation of the Board of Auditors: UNOPS agreed with the recommendation that it (a) take immediate steps to identify all excess expenditures; (b) solicit additional budget approvals from clients to cover excess expenditure; (c) report unfunded deficits, as well as the impact on the financial position of UNOPS, to the Management Coordination Committee; and (d) as part of the Atlas business process analysis, evaluate controls related to project budgets to ensure that proper monthly review of project budgets and expenditure is completed.

16. The Division of Finance prepared the first exception report of project budget status on 12 September 2005. On 14 September, he Deputy Executive Director instructed regional directors to solicit additional budget approvals to re-phase project budgets according to client requirements. Regional directors were further instructed to record all supporting documentation in the Atlas system. At year end, the Management Coordination Committee will be informed of any project budgets where expenditures exceed approved project budgets.

Paragraph 117

Recommendation of the Board of Auditors: UNOPS agreed with the recommendation that it (a) consider the disclosure of items in the financial report in terms of best governance principles relating to oversight, performance reporting, social accounting issues, risk management, continuity and internal control issues. In this regard, UNOPS should revert to paragraph 6 of General Assembly resolution 57/278, since better disclosure would be a step towards taking a proactive approach to the review requested by the General Assembly; (b) continue to improve the presentation and disclosure of financial statements; and (c) disseminate any key improvements to other United Nations organizations.

17. UNOPS continues to participate in the High-level Committee on Management working group, which is considering these issues.

Paragraph 122

Recommendation of the Board of Auditors: UNOPS agreed with the reiterated recommendation of the Board that it expedite, in consultation with UNDP, the finalization of the memorandum of understanding to regulate the functions of central services provided by UNDP. Furthermore, in consultation with UNDP,

UNOPS should compile and finalize the service-level agreements clearly setting out the respective functions and responsibilities.

18. Service-level agreements related to treasury and payroll services will be signed shortly. Negotiations on a new memorandum of understanding for central services have yet to commence.

Paragraph 125

Recommendation of the Board of Auditors: UNOPS agreed with the recommendation that, in consultation with UNDP, it ensure that the Atlas system (wave 2) implementation agreement with UNDP (a) clearly defines the scope of the agreement and cost structure; and (b) limits it potential liability for consequential costs incurred by UNDP for which UNOPS is not directly responsible.

19. UNOPS is reviewing the terms, scope and cost of its participation in Atlas wave 2, in conjunction with the proposed memorandum of understanding between UNDP and UNOPS regarding "production, operations and support of Atlas". The memorandum of understanding will be signed in the fourth quarter of 2005.

Paragraph 128

Recommendation of the Board of Auditors: UNOPS agreed with the recommendation of the Board to arrange for internal oversight of financial procedures, controls and data.

20. The recommendations of the Board were incorporated in the 2005 internal audit work plan. The internal audit of the Division of Finance is due to commence shortly and be completed by the end of November, with a final report to be issued in January 2006.

Paragraph 132

Recommendation of the Board of Auditors: UNOPS agreed with the recommendation that it (a) enter into formal negotiations with the lessor as soon as possible to exceed the 25 per cent sublease limit; (b) develop a policy to manage the rental of the unutilized space; and (c) perform a cost-benefit analysis of continuing with the current lease agreement.

21. Under the existing lease there is no restriction on the proportion of space that UNOPS can sublet to other United Nations and related organizations. From a security and related cost perspective, sub-letting to other United Nations and related organizations rather than to third parties is always the preferred option. The policy of UNOPS is to utilize its office space as efficiently as possible, maximizing its rental income and ensuring that all space is utilized. Currently, 31 per cent of office space is sublet to other United Nations organizations. An informal approach was made to the lessor, who indicated that he would not be prepared to renegotiate the 25 per cent limit on space sublet to third parties. There is sufficient demand from other United Nations and related organizations that it has been decided to discontinue informal discussions on raising the 25 per cent limit. The recommendation is therefore considered fully implemented.

Paragraph 140

Recommendation of the Board of Auditors: UNOPS agreed with the recommendation that it (a) develop an ICT strategic plan; (b) consider creating an ICT steering function or committee; and (c) consider the benefits of adopting international standards and best practices to be applied to its ICT environment.

22. A strategy for IT infrastructure has been formulated as part of the ICT optimization project. An ICT advisory board and an ICT steering committee have been established to streamline the introduction of new ICT initiatives in UNOPS. The new ICT infrastructure complies with guidelines and industry best practice. Thus points (b) and (c) are fully implemented, while the ICT strategy will be aligned with the organizational direction and strategy to be implemented at the end of 2005 and the beginning of 2006.

Paragraph 145

Recommendation of the Board of Auditors: UNOPS agreed with the recommendation that its internal audit should verify the validity and accuracy of journals posted as a result of the data cleaning exercise.

23. Given the other priorities of the UNOPS internal audit, a review of journals posted as a result of the data cleaning exercise has not been included in their 2005 work programme. The validity and accuracy of journals posted is ensured through authorization of the journals, the reconciliation of balance sheet accounts, and analytical review performed on account balances. Internal audit field work on the audit of the finance department is due to commence shortly and be completed by the end of November, with a final report in January. The scope of the audit will cover journals posted as a result of the data cleansing exercise.

Paragraph 147

Recommendation of the Board of Auditors: UNOPS agreed with the recommendation that it identify all changes in the Atlas system since the previous training and provide users with updated training related to such changes.

24. Having completed of its updated Atlas training sessions, UNOPS has expanded the programme with Atlas performance training. The training for performance improvement sessions started in August 2005.

Paragraph 151

Recommendation of the Board of Auditors: UNOPS agreed with the recommendation that, in consultation with UNDP and UNFPA, it should establish a service level agreement with the [Atlas] service centres, identifying minimum standard requirements regarding the number of cases handled, and that the time taken to resolve problem cases should be established.

25. The comments provided for audit recommendation, paragraph 122, apply.

Paragraph 154

Recommendation of the Board of Auditors: UNOPS agreed with the recommendation that, in conjunction with UNDP, it should expand its contingency measures to ensure the ability to continue to provide information system processing capabilities in the event that the major facilities are unavailable for a significant period of time.

26. A secure off-site Atlas production environment has been implemented with UNDP. A fully redundant backup infrastructure, which is operated remotely from the primary site around the clock, with a built-in guarantee of no more than four hours loss of service, has been established. Implementation of an enterprise-wide, fully redundant e-mail system is under implementation, with installation completed at headquarters and for three out of the five regional offices. Installation at the remaining offices will be complete by the end of 2005.

Paragraph 161

Recommendation of the Board of Auditors: UNOPS agreed with the recommendation that, in conjunction with UNDP and UNFPA, it should initiate an independent comprehensive post-implementation evaluation of the set-up and effectiveness of the built-in internal controls of the Atlas system as soon as possible.

27. The Office of Audit and Performance Review commissioned an independent consulting firm, Cedar, to undertake a post-implementation review of Atlas controls and risks. The review included UNOPS in its scope. Cedar has completed the review, and UNDP is discussing with UNOPS a timetable for implementation of its recommendations.

Paragraph 165

Recommendation of the Board of Auditors: UNOPS agreed with the recommendation that it compile, approve and disseminate to all staff an overall internal control framework to all staff that covers all modules of Atlas as a matter of priority.

28. The UNOPS internal control framework concerning Atlas operations approved by the Risk Management Oversight Committee was promulgated on 21 October and disseminated to staff.

Paragraph 169

Recommendation of the Board of Auditors: UNOPS agreed with the recommendation that since it is responsible for its own general ledger, it should, in conjunction with UNDP, intensify its efforts to resolve the limitations on the general ledger module as a matter of priority.

29. The general ledger of UNOPS is now fully functional and populated with data from source modules and systems.

Paragraph 173

Recommendation of the Board of Auditors: UNOPS agreed with the recommendation that it (a) include appropriate terms and conditions addressing bank reconciliations in the service level agreement with UNDP for treasury services; and (b) closely monitor cash transactions processed by UNDP on its behalf until the reconciliations are in place.

30. Comment above still applies. UNOPS is in the process of agreeing with UNDP Comptroller's Division that they will certify monthly that bank reconciliations have been successfully performed and UNOPS monies have been correctly segregated from other third-party funds managed by UNDP.

Paragraph 177

Recommendation of the Board of Auditors: UNOPS agreed with the recommendation that, in conjunction with UNDP, it should take immediate steps to rectify the weakness in the Atlas system that allows changes to payee details after a payment voucher has been approved.

31. The function allowing changes to payee details is necessary to process imprest payments in Atlas. A generic purchase order is generated to authorize imprest account holders to make use of project funds. As the funds are used, individual purchase orders are then processed for disbursements on the basis of the approved generic purchase order. This facility in Atlas is necessary to effect imprest account

replenishments to which multiple purchase orders are matched when imprest expenditure vouchers are processed. A compensating control has been implemented whereby an unmatched items report, distinguishing between imprest, non-imprest and UNDP-generated payment vouchers, is produced and reviewed monthly.

Paragraph 179

Recommendation of the Board of Auditors: UNOPS agreed with the recommendation that, in conjunction with UNDP, it should ensure that payments split between two or more budget holders are approved by both budget holders before payment takes place.

32. Fully implemented.

Paragraph 182

Recommendation of the Board of Auditors UNOPS agreed with the recommendation that it institute alternate controls until the correct budgets are reflected in the Atlas system to manage project cost.

33. Fully implemented.

Paragraph 185

Recommendation of the Board of Auditors: UNOPS agreed with the recommendation that, in conjunction with UNDP, it should expedite its efforts to develop and put into operation all exception and monitoring reports.

34. The requirements of the audit exception reports are reviewed and updated together with Comptroller. The reports are progressively rolled out as scheduled and on target.

Paragraph 188

Recommendation of the Board of Auditors: UNOPS agreed with the recommendation that, in conjunction with UNDP, it should reconsider activating the audit trail function, taking into account the benefits and effect it would have on the operations of the Atlas system.

35. The activation of a full audit trail would result in severe degradation of system performance. Therefore, UNOPS does not at this time recommend activation of the audit trail. At present, every data table includes a record of the person raising the transaction. UNOPS and partner agencies believe that at this juncture that is sufficient control and will monitor the situation. The use of data field-level audits on a limited number of data fields to avoid any drain on system performance will be included in Atlas wave 2 implementation.

Paragraph 190

Recommendation of the Board of Auditors: UNOPS agreed with the recommendation that, in conjunction with UNDP, it should implement firewall security at all country offices in compliance with the recommended minimum standards for desktop and network environments.

36. Firewall security is in place in all regional offices. The recommendation is fully implemented.

Paragraph 193

Recommendation of the Board of Auditors: UNOPS agreed with the recommendation that, in conjunction with UNDP, it should urgently allocate

resources to resolve the shortcomings identified in the Atlas system as soon as possible, especially those classified as critical.

37. The Change Control Board was revisited restructured and a Change Control Manager was appointed. UNOPS, which plays an active role in resolving the shortcomings identified in the Atlas system, immediately solved critical problems immediately on a priority basis.

Paragraph 195

Recommendation of the Board of Auditors: UNOPS did not have an independent comprehensive internal control framework that would adequately mitigate its control risks. This weakness was compounded by the numerous related deficiencies that the Board has identified. The Board was concerned that if the risks of these significant events after the balance sheet date were not addressed expeditiously, it could result in major operational difficulties for the organization.

38. The UNOPS internal control framework has been promulgated by the Executive Director and disseminated to staff.

Paragraph 201

Recommendation of the Board of Auditors: UNOPS agreed with the recommendation that it adhere strictly to its procurement directives on engaging consultants.

39. Fully implemented.

Paragraph 204

Recommendation of the Board of Auditors: UNOPS agreed with the recommendation that it perform a cost-benefit analysis for the recommendations made by the strategic advisory groups in order for the change management initiatives to be measured against a substantiated budget and in order to track the value generated by the change management process.

40. The majority of the transformation programme initiatives have been incorporated into ongoing operations and are no longer considered stand-alone initiatives. The steering committee continues to meet weekly to review the following for each previously named initiative: progress to date, major developments and issues for resolution where necessary. The steering committee also monitors cost to date against budget for each previously named initiative.

Paragraph 208

Recommendation of the Board of Auditors: UNOPS agreed with the recommendation that it identify organizational as well as individual training requirements with a view to developing a training plan, backed by an adequate amount of resources.

41. The recommendation has been incorporated into the new UNOPS performance and results assessment system implemented in March 2005.

Paragraph 211

Recommendation of the Board of Auditors: UNOPS agreed with the recommendation that it ensure that staff members sign the acceptance of appointment letter for all appointments of limited duration, and that copies be kept in a central location for future reference.

42. Fully implemented and embedded into business as usual.

Paragraph 214

Recommendation of the Board of Auditors: UNOPS agreed with the recommendation that, in conjunction with UNDP and UNFPA, it should intensify its efforts to finalize the fraud prevention strategy and the fraud policy statement.

43. See response to recommendation in paragraph 218.

Paragraph 218

Recommendation of the Board of Auditors: UNOPS agreed with the recommendation that it (a) amend, in consultation with UNDP, the fraud prevention policy to include reference to UNOPS – or, alternatively, that a separate addendum be prepared for formal approval by UNOPS; (b) make the draft policy available for comment within UNOPS prior to finalization; and (c) arrange for fraud investigations in areas where the risk or likelihood of fraud is high.

44. A UNOPS fraud policy has been promulgated by the Executive Director and disseminated to staff.